MOSAIC FINANCIAL PARTNERS, INC.
a Wealth Advisory firm

Effective Financial Strategies

August 2009

www.MosaicFP.com

Financial Policies: Guide Yourself

Most of us know how to budget. When we want something that is more than we can currently afford, we know it's a good idea to set up a savings plan until we have enough to buy the item. Setting up a plan and creating guidelines can also be incorporated into your portfolio - for example, determining portfolio withdrawal rates.

One approach is to use portfolio returns to guide your withdrawal rates. Portfolios are expected to grow at certain average rates each year over time. When the portfolio is above the expected level plus a predetermined hurdle, you can use the excess return to give yourself a "raise." But, if the portfolio is below its expected level, including a predetermined buffer, you agree to rein in spending and withdraw fewer portfolio dollars. This allows more dollars to participate in the market's rebound, and, it lets you benefit from the good times, by sacrificing a bit in downturns.

Establishing policies for the future is always easier when you can be objective. Decision making in an emotional moment tends to be more influenced by current circumstances than by what is best for the long run. With markets more stable, perhaps now would be a good time to talk with us about creating your own withdrawal rate guidelines.

In the turmoil of the last year, two topics that often arose were: rebuilding cash cushions and repaying debt. Many clients used cash holdings outside of their Mosaic portfolio to supplement portfolio returns for their cash needs. As the markets recover, they are using some of their portfolio growth to rebuild those cash reserves. For many, it's also a good time to consider paying down loans or mortgages.

What are your priorities: replenishing cash or paying down debt? How do you make those decisions or implement them? Having a plan, or a policy, can help you do what's best. We'd be happy to talk with you about establishing your own policies.

Tax Planning For 2010 Roth Conversions

For many tax payers, 2010 may offer a unique opportunity to convert to a Roth IRA.

The Roth IRA was created as part of the Tax Relief Act of 1997. Like traditional IRAs, earnings inside a Roth IRA are not subject to current income taxes. However, the Roth IRA has two unique benefits: First, assets held in a Roth IRA by the original account owner are not subject to the Minimum Required Distribution rules (i.e., you are not required to take money out after age 70.5). Second, most Roth IRA withdrawals are not subject to income taxes because contributions were previously taxed. Qualified distributions to beneficiaries of a Roth IRA are also made income tax free. This combination of benefits can make Roth IRAs a powerful savings and wealth preservation tool.

One means of establishing a Roth IRA is by "converting" dollars from a traditional IRA to a Roth IRA. Historically the income restrictions on Roth IRAs prevented many from participating in a Roth "conversion". However in 2010, the income restriction for converting an IRA to a Roth IRA is being

(Continued on page 2)

What's Inside

Roth Conversions—Continued from page 1

eliminated for that year only. This change will allow higher income individuals to use a Roth IRA as part of a comprehensive wealth preservation program.

A conversion involves taking dollars from a traditional IRA, paying taxes on that withdrawal, and moving those dollars to a Roth IRA. You may convert some or all of your traditional IRA. As a general rule, to be advantageous, your 2010 income tax rate will need to be lower than what you expect your taxes to be when you need to take the money from your Roth IRA.

If you convert in 2010, you can choose to pay the taxes due on the withdrawals over the subsequent two years, instead of paying it all immediately.

Roth IRAs can also be attractive in other circumstances: those whose traditional IRAs represent the majority of their investment assets may benefit from a partial IRA to Roth conversions to help gain more control over when to recognize future income taxes. Having both a Roth and a traditional IRA offers the opportunity to "mix and match" sources of future income streams. In cases where one's estate is large enough to be subject to estate taxes, an IRA to Roth conversion will reduce the size of the taxable estate (by the amount of income taxes paid on the conversion) while providing beneficiaries with assets that are free from income taxes.

Converting dollars from a traditional IRA to a Roth IRA should be examined on a case-by-case basis. **It will not be universally advantageous.** Under the right circumstances, an IRA to Roth conversion may be a sound and appropriate tax reduction and wealth preservation strategy. Individuals who do not expect to ever need to use their IRAs, individuals with long expected lifetimes, and wealthy individuals whose estate plans involve generation-skipping provisions may find IRA to Roth conversion strategies particularly compelling.

Stealing your Child's Identity

Identity thieves are targeting children more than ever. The Federal Trade Commission reports that the number of children under 18 who have had identities stolen has doubled over the past three years to approximately 400,000 annually.

The single best prevention: don't disclose your child's Social Security number except when absolutely necessary.

Children are particularly good targets because they don't use their credit often and therefore a bad mark on their credit record could go undetected for years. Thieves use children's Social Security numbers to apply for credit cards, utility services, bank accounts, jobs, etc, and then don't make the expected payments.

The single best prevention: don't disclose your child's Social Security number except when absolutely necessary. While Social Security numbers are required for certain activities, such as claiming your child as a dependent on your tax returns or opening a bank account, don't assume that a Social Security number is required just because it is on a standard form. For example, while doctors may request a Social Security number, they will generally provide service without it as long as a verified proof of insurance is shown.

Educate your child on why they should not give out personal information (e.g., Social Security numbers, birth days, mother's maiden name, etc.) especially online. Children, like adults, have constant opportunities to register for free stuff on the internet by simply giving out personal information. Warn your child about phony emails and websites that look official. Your child should know not to disclose personal information.

Make sure to check your own credit report annually. Do your own when you check your child's. Access it at *www.AnnualCreditReport.com*. (Caution: a number of websites sound similar; this is the official one.)

Please Join us for lunch and talk with Gregory Valliere—Chief Strategist and Managing Director of the Washington Research Group.

October 8th, 2009

St. Regis Hotel

Please Call Mosaic to RSVP

We encourage you to bring a guest.

Resetting the Social Security Clock

Spooked by shrunken savings, even some wealthy retirees are going back to work. One way to boost income further over the long term: Reset the clock on your Social Security benefits.

Retirees who begin to collect Social Security early can un-do that decision if circumstances change, provided they pay back all benefits received to date. Individuals can start collecting Social Security at age 62, but they earn an extra 7% to 8% for each year they defer until age 70.

The oldest of the baby boomers turned 62 last year, and many began claiming Social Security, believing that government benefits, 401(k)s, and other money invested in the market would allow them to retire in comfort. But for many, the market meltdown changed all that. Now some retirees are returning to work.

Retirees who begin collecting Social Security benefits at 62 typically receive benefits that are about 25% lower than if they had waited until full retirement age. Additionally, until you reach full retirement age, if you are collecting Social Security and also have earned income greater than $14,160 in 2009, your benefits will be reduced by $1 for every $2 earned. (For those born in 1937 or earlier, full retirement age is 65. The eligibility age increases for retirees born in 1938 or later; full retirement age is 67 for those born in 1960 or later.)

The monthly payment is even higher for those who wait a few years beyond full retirement age to start collecting benefits. If you wait to collect Social Security until age 70, the initial benefit is more than 70% higher than what you would have received at 62.

In 2009, the maximum pretax benefit at 62 is $21,228, compared with $26,064 at 65 and $36,648 at age 70. Cost of living adjustments occur each year.

If planned for appropriately, invoking the Social Security buy back provision essentially becomes an interest and penalty free loan for the participant. However, the risk is that this loophole could be closed before you are able to take advantage of this provision and repay previously received benefits, using form SSA-521.

For someone who has already chosen to take Social Security benefits, this decision is not quite as simple as just repaying your previous benefits. Many considerations need to be weighed.

Where are the dollars taken from? The benefit buy back is due as a lump sum. If the dollars used to make this payment are from your portfolio then you forgo the future portfolio return on those dollars.

How long will you be around to enjoy the incremental difference in Social Security? This is probably the toughest question to ask yourself but it is absolutely necessary. Personal habits such as maintaining good personal nutrition and smoking should be considered, along with family history. Both parties need to consider the longevity of their bloodline (a widow will receive some or all of the benefit depending on the widow's age) when making election decisions.

Coming Soon—Your Personalized Online Document Vault

We have partnered with CRM Software, Inc. to create a private client vault on our website (www.MosaicFP.com). Before the end of the year we will roll out this out to clients. Your vault will be able to house electronic copies of your quarterly reports and other personal records.

The Mosaic vault will host documents, using Amazon.com's "cloud" servers. These maintain the most robust security features in the industry. Thousands of times per second the Amazon servers ping our servers asking if we want to download information. If we establish a connection, they then rotate between different URLs for only brief periods, preventing unwanted observers from following or accessing data on the URLs.

Beyond including quarterly reports on your online vault, if you choose, you will also be able to store a variety of important documents in your vault. This means you'll have your important documents available to you anytime, anywhere. Every client vault will have its own unique password and login.

AROUND THE OFFICE

Congratulations… **Andrew Boone** passed level two of the CFA exam - two down, one exam to go!

At the Podium… In June, **Kevin Gahagan** gave a talk on behavioral finance to 80 members of the Santa Rosa chapter of American Association of Individual Investors.

Furthering the Profession… **Kevin** has begun serving on the 2009 and 2010 conference development committee for the Investment Management Consultants Association. **Geoff Zimmerman** has been elected to the board of directors for the Estate Planning Council of Diablo Valley. **Norm Boone** is currently the program chair for the San Francisco Estate Planning Council and is on the conference committee for next year's FPA Retreat.

Giving Back to the Community… **Holly Gillian-Kindel** continued on the Board of Directors of the San Francisco Financial Planning Association and is Chairperson of the Pro Bono Committee. **Andrew** continues his work with the Boys and Girls Club of San Francisco, teaching a S.A.T. prep class to high school students. **Geoff** is now a Vice President in the Rotary Club of Lafayette.. **Norm** continues to serve as a trustee of San Francisco's Saybrook University.

"When you take a vow of poverty around here, they don't fool around. The next day your entire portfolio is shifted into tax shelters and derivatives."

Education a Continuing Affair… In July, **Susan Morse** and **Kevin** attended JP Morgan's "Investment Forum," addressing "alternative" investment strategies in both the fixed income and equity categories. In May, **Norm**, **Kevin**, **Sabrina Lowell** and **Geoff** all attended the Financial Planning Association's "Northern California Regional Conference." The conference has become a national caliber event with thought provoking sessions covering investments, long-term planning, tax, insurance and estate planning. In early June, **Susan** attended a compliance seminar put on by the Securities and Exchange Commission. **Dave Cowles** attended a user group conference in Chicago for our portfolio monitoring software called "iRebal". We use this software to monitor client portfolios and to recommend trades based on the rules and guidance we have entered into the system. The software also monitors tax loss harvesting opportunities throughout the year. **Sabrina** spent three days in Moline, Illinois with the NexGen young planners group discussing technical topics as well as the future of the industry. **Benson Choy** completed two graduate tax courses at Golden Gate University: Advanced Individual Federal Taxation and Tax Research. **Norm** and **Linda Boone** attended a study group session in May in Des Moines, IA sharing practice management ideas.

Exotic Travel… **Susan** traveled to Corning, NY, for her recurring LPGA Advisory Council meetings and will attend (as a spectator) the CVS/pharmacy LPGA Challenge at Blackhawk Country Club in Danville, CA in late September. In early September, Susan and her husband, Frank, will be visiting family and friends in Vancouver and then taking a week's cruise to Alaska with family. **Norm** and **Linda** spent a week in England's Cotswolds region in the spring.

Will be Missed… **Christine Damico** recently completed her internship with Mosaic and has now returned to Virginia Tech University to complete her undergraduate studies in financial planning. We all appreciated Christine's contributions and upbeat attitude. She will be missed.

Worried about California Bonds?

It's pretty unlikely that you've heard of Martin Weiss but early last year he predicted the demise of Bear Stearns and Lehman Brothers. In June of this year, Mr. Weiss made another call, "Sell all California Paper!"

Before passing its budget in mid-July, California faced a $24 billion budget gap. Things got so bad that Moody's rating service cut California's debt rating to Baa1. Fitch Ratings dropped California to BBB (a similar rating). Ratings are important because certain types of regulated investors (e.g., pension funds, insurance companies, etc.) cannot invest in low quality debt, called junk bonds or high yield securities. Both of these ratings put California close to losing its investment grade quality rating, which would have caused many investors to liquidate their positions. With some tough decisions, the California congress whittled down the deficit and on July 28th, Governor Schwarzenegger signed this year's fiscal budget into law.

The new budget leaves just over $16 billion of line item cuts up to governor and maintains California's $500 million reserve. Public officials have also begun their own rhetoric. Bill Lockyer, the state's treasurer, has insisted that California would never default on its bond debt. Other factors still need to be weighed; California's unemployment is 11.5% and the state had to move the timing of paychecks back one day just so they would fall into the next fiscal year. California's next budget will be under pressure and problems can be expected down the road.

At Mosaic, we try to anticipate problems by monitoring the financial markets and the funds we hold.

We recently lowered our allocation to California bonds. As more information became available about the California crisis we discussed California in our investment committee where we weighed the tax benefit of holding California munis against the risk of California defaulting. We decided the prudent response was to lower our exposure to the California Muni market and use the change to increase our bond diversification. We have exchanged some of our California muni securities for national munis and other securities that track the Barclay's 1 to 5 Year Government/Credit Index. Both new securities increase the diversification within the fixed income side of the portfolio, while retaining some of the tax benefit.

We continue to monitor funds and markets and weigh our investment decisions. If you would like to speak with us about any investment, any specific decision or our investment process, please give us a call.

Budgeting Advice for Young Couples

According to a poll conducted recently by credit score generator Fair Isaac, when it comes to the key ingredients for sustaining a relationship, Americans are twice as likely to cite fiscal responsibility as they are sexual compatibility. One thing's certain: Money problems are common for newlyweds and it can be a source of tension that ultimately brings a marriage down.

The basics are obvious, though not always followed: Communicate regularly, set goals together and avoid money secrets. Some advise setting up three bank accounts — one for each spouse as well as a joint account. This provides each partner with a little financial breathing room. Another idea is that if one spouse leaves the workforce, he or she should be paid a "salary" by the working spouse in order to maintain some financial autonomy.

Establishing an automatic savings program is important. Discuss and agree on a savings goal, then automate the transfer to your savings. Most banks and brokerage accounts have automatic transfer features; use these features to accomplish your savings goals.

Another important topic of discussion is budgeting. Incorporating spending goals goes hand-in-hand with savings goals. Monitoring where dollars are currently spent can surprise some couples. Figure out where your dollars are currently going and then see where you can cut costs to accomplish your goals, if it is necessary. If couples are forced to use debt to make ends meet, it is important that young couples avoid high-interest debt. High-interest rates can quickly add up and easily compound into a problem.

We would be happy to facilitate a discussion on any of these or related topics. A gift of a planning session or two for a newly married couple can pay a lifetime of dividends. While the newlyweds' resources may be modest, we'd be happy to help them get started on the right foot. Please call us if we can be of help.

MOSAIC
FINANCIAL PARTNERS, INC.
a Wealth Advisory firm
140 Geary St., 6th floor
San Francisco, CA 94108
www.MosaicFP.com

Thoughts to Live By

"We cannot choose our external circumstances, but we can always choose how we respond to them ." - Epictetus

"There is no one giant step that does it. It's a lot of little steps ." - Peter A Cohen

"Great opportunities to help others seldom come, but small ones surround us every day ." - Sally Koch

"The best portion of a good man's life is the little, nameless, unremembered acts of kindness and love ." - William Wordsworth

"The natural proclivity of democratic governments is to pursue public policies which concentrate benefits on the well-organized and well-informed, and disperse the costs on the unorganized and ill-informed ." - Peter Boettke